



MICHAEL SILVER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

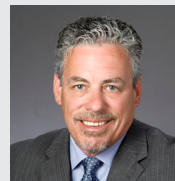
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<http://www.msco.net/industries-auto.html>

2016 Year-End Planning Checklist for Dealers



Michael Silver & Company CPAs understands that there are a wide range of issues that need to be addressed before the end of the year. Our annual year-end dealer checklist will help you during this process. If you have any questions about the information detailed in the checklist, please contact us.

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Year-End Planning:

- ☒ **Sec. 179 expensing limit for 2016 is \$500,000.** Consider placing eligible assets into service before the end of 2016 to take advantage of this expensing limit.
- ☐ **If you plan to make any charitable contributions, consider making them in 2016 to receive a tax deduction.** Payments by credit card are deductible on the day they are made even if the payment to the credit card company occurs on a later date. The IRS requires written acknowledgment for each contribution of \$250 or more.
- ☐ **Confirm you have made all required personal and corporate income tax deposits for 2016,** and see that your personal income tax withholding is adequate. You should consider paying all of your personal state income tax by the end of the year in order to take a federal income tax deduction for the state tax; however, you should consult with your tax advisor if you think you may be affected by the Alternative Minimum Tax.
- ☐ **Consider maximizing your retirement contributions,** \$18,000 for a 401(k) plan (\$24,000 if over age 50), and \$54,000 to profit sharing plans (net of any 401(k) contributions).
- ☐ **If you or the dealership owns stock that has unrealized losses,** consider discussing with your tax or investment professional the benefit of selling them by year-end to offset realized gains recognized earlier in the year.
- ☐ **Confirm you have substantiation for your 2016 meal and entertainment expenses.** Travel expenses and the cost of a holiday party for employees or food ordered into the dealership for staff should not be included in this amount.
- ☐ **Accrued interest on loans** from shareholders and other related parties, as well as rents, must be paid in order for the dealership to deduct these amounts in the current year.



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Keep the Accounting Records Open at the End of December:

- ☒ **Record December finance chargebacks** in December.
- ☐ **Maximize LIFO deductions.** Record all new vehicles that were built and invoiced in 2016 as vehicle purchases in 2016 by keeping the new vehicle purchase journal open the first few days of 2017.
- ☐ **Keep your accounts payable journal open** to record all 2016 expenses in 2016, including advertising, interest, utilities, telephone, gasoline, data processing, insurance, etc.
- ☐ **Adjust your property tax payable account** to equal at least the total you actually paid in 2016.
- ☐ **If any vehicle deal is not a 100% completed deal** in 2016 (all paperwork and funding in 2016), then treat it as a 2017 vehicle sale.
- ☐ **Make sure all miscellaneous inventories are adjusted to actual**, including labor inventory, sublet, gas-oil-grease, body shop materials, etc.
- ☐ **Distributions paid to S corporation shareholders should be equalized** in accordance to their ownership percentage before year-end.
- ☐ **You must include a reasonable estimate of your LIFO adjustment** for the year on all versions of your December financial statements. **There are no exceptions.** If there is not a separate LIFO cost of sales account, charge the LIFO estimate to cost of sales in a cost account that has no other activity.
- ☐ **Compare your actual parts inventory to the accounting parts inventory** and make adjustments where appropriate. Have your parts manager determine which parts should be considered worthless. Subject to your review, dispose of these parts by year-end.

- ☐ **All wages and commissions paid in 2017 for 2016 services should be accrued in 2016.** Make sure the first payroll in 2017 (even though some portion of the payroll was for 2016 services) is **not** included on your W-2s for 2016, but will instead be on the W-2s for 2017.
 - a. All accrued payroll for non-shareholders must be paid no later than 3/15/17 for it to be deductible in 2016.
 - b. If you are a C corporation, make sure you pay any salaries, commissions, or bonuses to stockholders and related parties in December (if their ownership exceeds 50% including related party interests) in order to take a 2016 tax deduction.
 - c. If you are an S corporation, wages to a shareholder cannot be accrued and deducted for tax purposes. You must pay them in 2016 and include the wages on the 2016 W-2.
- ☐ **Reconcile, where possible, all balance sheet accounts** before closing the year.

Additional Year-End TO DOs:

- ☒ **If you are not on LIFO for used vehicles**, adjust all of your used vehicles to current wholesale market value at year-end. On an annual basis, used vehicle LIFO should be discussed with your tax advisor.
- ☐ **Under the new capitalization policy you established a few years ago, businesses are allowed to write off small asset purchases.** The amount that can be written off is up to \$5,000 per item or invoice if you have an audited financial statement and \$500 per item if you do not.
- ☐ **Review all past due accounts receivables**, including employee receivables. Write off those receivables that are not collectible.



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- ☐ **Review prepaid assets and expense all items** in this account that are not valid as prepaid at year-end.
- ☐ **All payroll tax and sales tax payable accounts must equal the actual amount of the applicable taxes paid** in 2017 for the 2016 fourth quarter and year-end filings. Investigate variances. The year-end payroll tax accrual can only include taxes owed on wages actually paid in 2016.
- ☐ **Compute the December 31, 2016 accrued vacation wages** payable and adjust the books accordingly. Vacation wages paid January 1, 2017 through March 15, 2017 are deductible for tax purposes. No vacation accrual is allowed for any shareholders.
- ☐ **Review bank reconciliations for checks** (including payroll checks over 60 days old) not expected to clear. These checks should be voided and reissued. Funds owed to payees who cannot be located may be considered unclaimed property, which would require you to remit the funds to the appropriate state agency. Before reissuing a check to a vendor, be sure that it has not been paid with a subsequent billing.

Year-End Tax Reporting:

- ☐ **IRS Form 1099-MISC must be issued to all businesses that are not incorporated** (including LLC's) and received \$600 or more during 2016 for payment of services, awards, commissions, or fees for services. A Form 1099-MISC must be issued for payments to an attorney even if they are incorporated. When preparing the 1099, for those vendors from whom you purchased parts in conjunction with a service, you must report the total payment made to them on the 1099. Also, Form 1099-MISC must be issued for all rents paid to non-corporate taxpayers, including shareholders, and Form 1099-INT must be issued for interest paid to shareholders and any other individuals. The deadline for filing 1099s is January 31, 2017 for both paper and electronically filed Box 7 non-employee compensation. All other 1099s are due February 28, 2017, if paper filed and March 31, 2017 if electronically filed.
- ☐ **W-2s for S corporation shareholders must include in wages health insurance premiums paid by the corporation.** This amount is not subject to social security or Medicare tax. If the dealership pays the insurance premiums on behalf of the shareholders' children who are employees of the dealership, the children's W-2 must include the insurance premiums.
- ☐ **Under the Affordable Care Act, if you have 50 or more full-time or full-time equivalent employees, you are considered an Applicable Large Employer ("ALE").** ALEs are required to complete Form 1095-C, Employer-Provided Health Insurance Offer and Coverage for all full-time employees. This form details by month the employer health insurance offered to individual employees. The deadline for providing the forms to employees is January 31, 2017. Paper filed forms are due to the IRS on February 28, 2017 and electronic forms on March 31, 2017. There are extensions available if requested.
- ☐ **Determine if you are receiving services from individuals who should be considered employees.** The IRS provides a voluntary program that will allow you to convert these individuals prospectively from independent contractors to employees with partial relief from penalties and interest including protection from prior year audits of the converted class of workers. Consult your tax advisor for details.



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Review Procedures for the Use of Demonstrators to Ensure You Comply With the Current IRS Regulations:

- ☐ **All individuals who are provided a demo to drive** should sign a written demonstrator agreement.
- ☐ **There are two IRS approved methods that can be used for full-time salespersons.** The first method provides them with tax-free use of the demo. This method is fairly complicated and restrictive. The second method, used by most dealers, is the partial exclusion method. Under this method, an amount is added to wages on a monthly basis. The IRS has provided daily income amounts based on the value of the vehicle. For example, a vehicle valued at \$25,000, the daily inclusion is \$6.00. Under this method, employees are not required to maintain logs.
- ☐ **For employees who are not full-time salespersons** and any other individuals who drive demos, the annual lease value method is used. The amount included in income is based on personal-use mileage and the IRS annual lease table. The IRS requires that logs be maintained in order to verify business versus personal use of the vehicle.
- ☐ **The amount included in income is to be added to each employee's W-2.** Non-employee family member income amounts must also be included in the employee's W-2. This income is subject to social security and Medicare tax. Shareholders not on the payroll and any other non-employees must be issued a Form 1099-MISC for the income.

Other:

- ☐ **Form 8300 must be filed if you receive cash in excess of \$10,000 from a customer.** This includes cashier checks, money orders and traveler's checks except those issued by financial institutions requiring a lien on the vehicle.
- ☐ **If the dealership has a section 125 plan** (cafeteria plan), make sure eligible employees complete the 2016 election forms before the first 2017 payroll. Remember that stockholders owning more than 2% in S corporations (LLC's, etc.) are not eligible to participate.
- ☐ **If you offer a health care Flexible Spending Arrangement (FSA) as part of your cafeteria plan,** in order for it to be a qualified benefit under a cafeteria plan, the maximum salary reduction contribution to the health care FSA for 2017 is limited to \$2,600. Stockholders owning more than 2% in an S corporation or an LLC are not eligible to participate. If your company offers a qualified high deductible health insurance plan, you and employees might be able to contribute to individual Health Savings Accounts (HSA). Contribution limits for 2017 are \$3,400 for an individual and \$6,750 for a family with a \$1,000 additional contribution for those who are age 55 and over.
- ☐ **If you make gifts to individuals each year for estate tax purposes,** the payments must be made by year-end.
- ☐ **You can obtain more information about the personal use of autos** including sample demonstration agreements by requesting our Dealer Demonstration Guidelines.